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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554

In the Matter of:	)	
	)	
Petition for Rulemaking to Amend	)	RM-8448
Part 32 of the Commission's Rules,	)	
Uniform System of Accounts for	)	
Class A and Class B Telephone	)	
Companies to Increase the Dollar	)	
Limit for Expensing the Cost of	)	
Individual Items of Equipment	)	

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**REPLY COMMENTS  
OF THE  
UNITED STATES TELEPHONE ASSOCIATION**

On March 1, 1994, the United States Telephone Association (USTA) filed a Petition for Rulemaking. USTA asked the Commission to amend its rules by increasing the expense limit for individual equipment items from \$500 to \$2,000. USTA also proposed that exchange carriers be permitted to amortize the previously capitalized, undepreciated investment over a three-to-five year period. Eight parties commented on the petition.<sup>1</sup> Seven of those commenters supported USTA's proposal. MCI filed the only opposition. As USTA demonstrates below, MCI's objections are without merit.

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<sup>1</sup>ALLTEL Service Corporation ("ALLTEL"), Ameritech Operating Companies ("Ameritech"), Bell Atlantic, BellSouth, MCI Telecommunications ("MCI"), Pacific Bell and Nevada Bell ("Pacific"), Roseville Telephone Company ("Roseville") and U S WEST Communications, Inc. ("U S WEST").

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**I. THE INCREASE IN THE EXPENSE LIMIT IS IN THE PUBLIC INTEREST.**

The exchange carriers that commented cite the efficiencies they would gain if the expense limit was raised. These efficiencies come from the decreased administrative burden the rule change would bring,<sup>2</sup> but also "expensing more equipment [would] allow carriers to react more quickly to rapidly increasing changes in technology."<sup>3</sup> As U S WEST points out, with the current \$500 expense limitation, "the necessity of processing, recording, tracking and retiring low-cost, high volume items puts an exchange carrier at a competitive disadvantage in relation to other competitors who can choose to expense these items." (U S WEST at 3). The exchange carriers also supported USTA's proposed amortization schedule, and confirmed that the shift from capitalizing to expensing "would be implemented in a revenue neutral manner." (Roseville at 3.)

Between 1974 and 1987, the FCC periodically updated the expense limit. The limit has not been updated for seven years. As Ameritech points out "an increase is appropriate at this time to better align the accounting practices of regulated companies with non-regulated companies."<sup>4</sup>

**II. MCI's OBJECTIONS ARE BASED ON A MISUNDERSTANDING OF USTA's PROPOSAL.**

In its comments, MCI expresses doubts that an increase in expense limits would be revenue neutral. MCI's comments fail to take into consideration USTA's

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<sup>2</sup>See, e.g., ALLTEL at 1 and Pacific at 3.

<sup>3</sup>Bell Atlantic at 2.

<sup>4</sup>Ameritech at 1. See also BellSouth at 2, and Bell Atlantic at 2.

clear explanations of the mechanisms proposed to ensure revenue neutrality: the flexible amortization period and the progressively decreasing depreciation expense. If the Commission grants the Petition as proposed, carriers will amortize the embedded net book value over each company's respective remaining life. According to Bell Atlantic, "such flexibility will allow each carrier to take into account the specific remaining life of its applicable equipment and its own financial condition." (Bell Atlantic at 1.) Thus, the annual amortization expense will equal the depreciation expense that would have been taken if there had been no change in the Commission's Rules.

MCI also asks the Commission to "take note of the impact of granting the USTA proposal on sharing for the price cap carriers." (MCI at 2.) USTA's proposed changes will have minimal effect, if any, on sharing amounts. First, increasing the expense limit will actually result in a decrease in administrative expenses. It will eliminate the administrative costs associated with processing, tracking and retiring a myriad of low-cost, high-volume items. As the Commission has recognized both carriers and their customers benefit from improved operational efficiencies. Second, the increase in expenses caused by raising the expense limit to \$2,000 will be offset by a decrease in the investment base and in carriers' depreciation expense. The merits of adopting a more realistic expense limit far exceed any benefits associated with tracking insignificant assets. The FCC should not let MCI's unsubstantiated concern stand in the way of a rulemaking on this matter.

Finally, MCI's assertion that there is "...no effective competition for local access services..." is simply incorrect. The Commission itself recently recognized the rapid changes taking place in the industry and marketplace, discussing them in its notice seeking comment on the LEC price cap plan.<sup>5</sup> But even if MCI were correct about the state of competition in the access market, USTA's proposal would still be in the public interest. Certainly, the same factors that prompted the FCC to increase the limitation in 1988 again justify a review of expense limit.<sup>6</sup> The FCC should permit carriers to keep pace with the rest of American industry and eliminate unnecessary costs.


### III. CONCLUSION.

For the reasons set forth herein, and in USTA's petition, the FCC should promptly institute the requested rulemaking.

Respectfully submitted,

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May 9, 1994

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<sup>5</sup>Price Cap Performance Review for Local Exchange Carriers, Notice of Proposed Rulemaking, CC Docket No. 94-1 (February 16, 1994).

<sup>6</sup>Revision to Amend Part 31 3 FCC Rcd 4464 (1988).

**CERTIFICATE OF SERVICE**

I, Robyn L.J. Davis, do certify that on May 9, 1994 copies of the Reply Comments of the United States Telephone Association were either hand-delivered, or deposited in the U.S. Mail, first-class, postage prepaid to the persons on the attached service list.

  
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